

Management Audit of Community Development and Planning

Table of Contents

Executive Summary	2
Background	3
Audit Objectives, Scope & Methodology	3
Prior Audits and Reports	4
Need for Better Mission Statement and Performance Measurement	8
Lack of Central Leadership and Organizational Accountability	8
Factors Contributing To Ongoing Problems	9
a. Lack of a Policy and Procedure Manual	9
b. A-133 Audits	10
c. Monitoring	11
d. Lack of Supervisory Review	13
e. Training for Development Officers	14
f. Voucher Review and Approval	15

Executive Summary

This report analyzes the performance of the City of Cincinnati's Department of Community Development and Planning (CD&P). These services enable the city to meet its development and planning goals.

In response to performance concerns, the City's Economic Development and Community Development departments have been the target of a number of improvement efforts over the years. Most recently, in 2002, City Council authorized the reorganization of the department to begin a new effort to align the City's development and planning functions into one streamlined department.

We found that the reorganization effort did not fully meet expectations. The separate divisions have not been coordinated to achieve synergy. In addition, CD&P lacks adequate internal controls in the areas of a controlled environment, risk assessment, controlled activities, information and communication, and monitoring.

CD&P lacks a clear current mission statement, defined business objectives and policies and procedures. The department also lacks the appropriate control mechanisms to achieve efficiency. For example, CD&P files are not uniform and consistent.

A clear mission statement could provide a better foundation for establishing goals and performance measures, and allow the department and its employees to determine how their work ties to the department's mission.

CD&P does not have operational policies and procedures. This lack of common procedures results in inconsistent review work, a lack of reliable information, and a breakdown in communication. Documented policies and procedures serve as a basis for management planning, control, and evaluation. Defined standards governing the operation of the department and procedures describing the manner and responsibilities for performance contribute to employee understanding and achievement of Department objectives.

Program and contract monitoring is not adequately performed. For example, with some exceptions, development officers are not closely monitoring the subrecipient's performance or voucher submissions. Procedures should be developed that can be used by all staff who are responsible for monitoring programs and contracts.

The lack of internal controls in the area of monitoring and departmental policies and procedures causes concern about whether the programs, contracts and subrecipients

are achieving their intended goals and whether the dollars are being spent properly. The lack of accountability raises concern about whether local and federal grant dollars are reaching the individuals and communities they are intended to reach.

Background

In 1995, the City merged the Department of Neighborhood Housing and Conservation with the City Manager's Office of Human Services to form the Department of Neighborhood Services. Prior to 2002, the City had five separate departments/divisions that made up what is now known as Community Development and Planning (CD&P). The five departments/divisions were Department of Economic Development, Department of Neighborhood Services, City Planning Department, Office of Contract Compliance and Employment and Training Division (currently Workforce Development). In 2002, the Department of Neighborhood Services and Department of Economic Development were merged into one department called the Department of Community Development. In 2003, City Council approved a reorganization plan that created the current organization. The reorganization plan integrated the Department of Community Development, the City Planning Department, Office of Contract Compliance and Workforce Development into CD&P.

In 2003, the CD&P administered over \$16 million in federal CDGB funds and \$4.4 million in federal HOME funds for projects. Cincinnati City Council makes the final determination of which projects are funded.

Audit Objective, Scope and Methodology

The proper administration of public funds requires a department to establish and maintain internal controls that would reasonably ensure that the department achieves its primary mission and objectives as mandated by City Council and other applicable guidelines.

The overall objectives of our audit were to evaluate the effectiveness of internal controls as they relate to contracts, grants and loans. We evaluated the internal controls relating to the status of contracts/projects, including adequacy of project files, compliance with the terms of contracts, requests for services, work orders, change orders, close out of projects and deliverables. Other audit procedures were performed as deemed necessary.

We did not perform exhaustive examinations of all individual department activities, but focused on evaluating CD&P's overall business system.

To help gain an understanding of the development process and to identify strengths and weaknesses of the system, we interviewed the current and former department directors,

division heads, development staff within the divisions of Neighborhood Development, Administrative and Community Services. We also interviewed other participants involved in the City development process.

We reviewed CD&P documents describing the development process. We researched professional literature, and reports, manuals, and sundry documentation. In addition, we summarized the findings and recommendations reported in previous reports on the City's development function.

We performed our on-site work from September 2003 through mid-November 2003. In late November 2003 the City Manager ordered the Cincinnati Police Department to begin an investigation of CD&P. The audit was suspended until the investigation concluded in June 2004.

Prior Audits and Reports

Various aspects of the Department of Community Development and Economic Development have been audited and reviewed over the past ten years. Past audits identified operational weaknesses that in most cases still exist. The following are a list of those reviews:

Internal Audit Department Audit: 'Economic Development.' 1990

The report made several recommendations in the areas of performance criteria, organization, personnel and staffing, and loan management. The following are a list of recommendations made by IAD:

Goals, Objectives and Performance Criteria

The Department should revise its goal statement to more accurately reflect its Director's perceived responsibility.

The Department should integrate proposed public improvements into an annual and multi-year work plan with clearly defined goals and objectives.

Organization, Personnel and Staffing

The Department should adopt an organization plan that will ensure optimal use of staff resources and reflect actual organizational structure.

Economic Development should reassess at least annually the distribution of personnel because of fluctuations in workloads.

The Department should establish a source of policies and procedures for reference.

Loan Management

The Department should quickly establish and implement standard operating procedures which include procedures to follow in the event of late loan payments and/or request for forbearance to reflect the underlying financial and economic reasoning used in determining requests for loan modification(s).

The Department should perform reconciliation functions according to loan management guidelines issued by the Finance Department.

The Department should establish segregation of duties for in-house review of loan applications, determination of loan modification or foreclosure, and collection of delinquent accounts.

Jefferson Wells Audit: 'Management Performance Review of the Department of Economic Development.' 2001

The Jefferson Wells audit included recommendations in the areas of contract enhancement, project documentation, project management, performance and monitoring, in-sourcing operations, project funding, mission statement and strategic plan. The following is a list of those recommendations:

Contract Enhancement

The Department of Economic Development (DED) management should identify types of projects that it wishes to support and should develop consistent performance measures for each type of project.

DED management should ensure that the financial terms of the contracts are clear and complete.

Quantifiable mission-related performance measures should be developed for every project.

Project Documentation

DED should develop a project file content checklist by project type which includes a complete inventory of potentially required documentation to be retained in the project file.

Project Management Performance Monitoring

DED management should develop and document project plan standards for format and content and should train the Development Officers in the use of these project plan approaches.

DED management should reduce the number of projects assigned to the DED managers.

DED management should establish mission and strategic plan based standards by project type.

Project Funding

DED management should clarify its mission, goals, and strategic vision such that programs not clearly aligned with DED's mission are funded elsewhere in the City budget.

DED management and City government should strive to ensure that projects assigned to DED support the mission, goals and strategic and tactical plans of DED.

DED management should revise the existing mission statement, indicating that the mission success will be evaluated based upon quantitative measures such as job creation, retention, enrichment, and or increase in tax base.

Jefferson Wells Audit: 'Management Performance Review of the Department of Neighborhood Services.' 2001

The Jefferson Wells audit included recommendations in the areas of contract enhancement, project documentation, project management, performance and monitoring, in-sourcing outsourced operations, project funding, mission statement and strategic plan. The following is a list of those recommendations:

Contract Enhancement

DNS management should require that all related party transactions between the City and the applicant be disclosed as part of the loan and grant application process. This should apply to nonprofit and for-profit applicants.

DNS management should identify types of projects that by their design create a risk to the City and develop consistent performance measures.

Quantifiable, mission-related performance measures should be developed for every project.

Project Management and Performance Monitoring

DNS management should develop and document a standard project plan format and should train the development officers in the use of this tool.

DNS management should establish a process where the DNS management team performs a post project completion evaluation.

DNS management should investigate the purchase and development of software tools to help the department manage and monitor project performance.

Mission Statement and Strategic Plan

DNS should develop and implement a strategic long-range plan that encompasses the greater needs of the City at large as well as tactical plans specifically addressing the individual needs of the fifty-two neighborhoods.

DNS should develop a master plan for the City and should allocate funding to programs and projects annually based upon the master plan.

Summation

Defining goals and objectives, optimizing staff and resources, establishment of policies and procedures and performance monitoring were all concerns in prior audits.

The recommendations identified in the prior audits have been inadequately implemented or not implemented at all. What follows is an overview of the major challenges that confront CD&P as it moves forward.

Need for Better Mission Statement and Performance Measurement

City departments are responsible for providing quality services at a reasonable cost, and reporting those efforts to City Council and the public they serve. To improve management of operations and provide accountability, departments need to state why they exist and what they are trying to achieve. We have concluded from our audit that CD&P needs to develop a mission statement.

A department's mission statement is the foundation for performance measurement, budgeting and staffing levels. A mission statement should succinctly identify the unique purpose of the department and what the department does and for whom. A mission statement should be developed with significant input from all levels of the organization and the public, and be in concert with City Council intent. A well-written mission statement should seldom change.

Recommendation:

The department should design a new mission statement. We believe an improved mission statement would provide a better foundation for establishing goals and performance measures, and allow the department and its employees to determine how their work ties to the Department's mission. Without the knowledge of basic elements the ability to submit a staffing and budget proposal for 2005/2006 is not possible.

Lack of Central Leadership and Organizational Accountability

During the audit and investigation there was a lack of continuity of employment at the position of Director and other key positions.

CD&P has been without a permanent director since fall 2003. Since that time the department has been under the direction of two acting directors. Equally, the department has seen the leadership of the divisions affected due to retirements, resignations and transfers. IAD believes this lack of central leadership and direction is a factor that contributes heavily to the City's inability to resolve ongoing department problems. Unless the City is able to establish permanent leadership and control over its community development function, it will be difficult to adopt uniform policies and

procedures, a comprehensive management information system and the communication lines needed to bring about consistent, coordinated and efficient development efforts.

Many of the department's problems stem from inadequate controls, lack of policies and procedures, management leadership and direction. The lack of a permanent director is contributing to the uncertainty, the lack of focus, and lack of direction.

Recommendation:

The department needs an experienced director who can provide the leadership and direction that has been missing from the department.

An immediate emphasis on the mission, objectives, and internal policies and procedures would enable the department to move forward and begin to deliver the development and housing programs that City Council and citizens expect.

Factors Contributing To Ongoing Problems

IAD has identified a number of additional factors that contribute to ongoing problems in CD&P.

Policies and Procedures

Documented policies and procedures serve as a basis for management planning, control and evaluation. Clearly defined standards governing the operation of the department and procedures describing the manner and responsibilities for performance contribute to employee understanding and achievement of Department objectives.

During our staff interviews the lack of policies and procedures was a source of frustration among staff. CD&P does not have operational policies and procedures. This lack of common policies and procedures results in inconsistent review work, a lack of reliable information, and a breakdown in communication.

A customary audit procedure is to request the department's current policy and procedure manual. When we requested a copy, we were informed that one did not exist. We were given a manual from the former Department of Economic Development but it was marked "draft" and was never approved.

A comprehensive policy and procedure manual should be clearly outlined with specifics for each and every program that is administered. The manual should be a living document and updated when any changes occur in a program or when a new program is begun. Specifically, a manual would address such issues as reviews of staff performance, reviews by management of departmental performance and program

performance measures, management of personnel, controls over information processing, physical control over assets, segregation of duties, proper execution of transactions, accurate and timely recording of transactions and events, accountability for records and assets, and procedures for voucher submissions and procedures for monitoring.

CD&P has a lack of procedures to ensure security of the department's assets and the annual funding provided to CD&P. IAD found a lack of security, fraud awareness, due diligence and even "professional skepticism" among the staff. Due diligence provides a level of security over vulnerable assets both internally and externally. Development officers informed IAD that they were told to push certain projects through without questions even though they knew the projects were questionable.

CD&P lacks any procedures to address segregation of duties. IAD found that various functions within CDP should be segregated to avoid the risk of error or fraud. Specifically, the functions of monitoring and contract compliance should be segregated duties. In reference to monitoring, several development officers indicated to IAD that their primary function is to "make the deal." It appears that the emphasis at CD&P has been on the deal-making and not on due diligence project reviews and the monitoring of the projects.

Recommendation:

The Department should establish a comprehensive policies and procedures manual. The manual should include specific guidance on matters such as loan approval, contract monitoring, project management, goals and objectives and pertinent laws and regulations.

A-133 Audits

Organizations that receive federal funding, either directly or through another department, are required to undergo an audit of their financial records to ensure that funds have been spent in accordance with federal program rules and regulations. This is an entity level audit that encompasses all federal grants that are received regardless of the source. This type of audit is referred to as an A-133 Audit. The performance of this audit provides assurance that the subrecipients are complying with federal rules and regulations. It should identify non-allowable costs and also address the quality of the internal control structure of the entity.

The standard contract provision in the City's subrecipient agreements requires the entity to have an annual audit performed. The report must be submitted to the City within six months following the completion of the program year.

Development Officers have not been trained to review the A-133 Audits. IAD found that the A-133 Audits are given to the Supervising Accountant in the department, who indicated that the audits were scanned into his computer without review. The Supervising Accountant assumed that the Development Officers were reviewing the A-133 audits. The Supervising Accountant said that he does not believe it is an effective use of time nor beneficial for him to review and comment on the A-133 audits. We could find no written policies or procedures as to whose responsibility it is to review the audits.

Recommendation:

A formal procedure needs to be developed to timely review the A-133 Audits and to include questions that result from these reviews in the annual site visits. Failure to file audits in a timely way is also a cause for funding suspension.

We recommend that the supervising accountant track and review all A-133 audits. The supervising accountant should submit a quarterly status report to the department director in reference to the A-133 audits. The status report should identify which agencies are non-compliant or delinquent with their A-133 audits. In addition, all A-133 audit findings should be included in the status report. The supervising accountant should be responsible for addressing audit findings or compliancy issues with the agency.

Monitoring

Several issues were identified that reveal gaps in the methods used to monitor subrecipients. There is no process in place that evaluates actual performance against the stated goals or performance measures. As a result, in some cases, contractual performance goals have become meaningless.

According to federal regulations, the City is responsible for the effective and efficient management of these federal dollars. IAD found that CD&P does not adequately monitor the subrecipients of these funds. CD&P management has not emphasized the development officer's monitoring responsibilities in this area.

Although there are some exceptions, overall, CD&P has no formal policies and procedures for monitoring subrecipients. The Human Services Section (HSS) of CD&P conducts site visits twice a year in order to monitor agencies; however, these visits are not conducted to determine the financial health of an agency.

The lack of sufficient monitoring causes questions about whether the subrecipient's goals are being accomplished and whether federal and local dollars are being used efficiently, effectively and according to federal regulations.

The City receives several types of federal funding, including Community Development Block Grants, HOME Investment Partnerships Program Funds, Emergency Shelter Grant, Housing Opportunities for Persons with AIDS and Empowerment Zone funds. All these programs are funded through the U.S. Department of Housing and Urban Development (HUD). The management of HUD's funds are governed by the Code of Federal Regulations (CFRs), the Office of Management and Budget Circulars, and guidance from HUD.

The applicable Code of Regulations (CFR) 24 CFR Part 85.20 states that the financial management systems of grantees and subgrantees must meet internal controls standards. Effective control and accountability must be maintained for all sub grantees. The city is responsible for maintaining adequate control over its Empowerment Zone Program to assure efficient and effective use of the funds. The city is responsible for monitoring the activities funded by these federal dollars to make sure the performance goals are being achieved.

One of the applicable Office of Management and Budget (OMB) Circulars, OMB Circular A-87, paragraph A(2)(a)(1), states that governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

The City is responsible for making sure that these federal dollars are spent properly. Although the City sometimes contracts with subrecipient like the Cincinnati Empowerment Zone Corporation (CEC) to implement and administer the funds, the City is ultimately responsible for the efficient and effective administration of these federal awards

IAD found several incidents where CD&P did not have adequate controls to monitor the use of these federal dollars.

IAD found that in some agreements the subrecipient was required to provide additional documentation before the release of funds. CD&P did not require the subrecipient to produce these documents before releasing funds.

In the past, CD&P management has not placed a strong emphasis on the monitoring aspects of these funds. In general, CD&P has not established adequate policies to address the monitoring responsibilities of staff. Although some sections within the department such as Human Services have made efforts to strengthen their monitoring.

Recommendation:

CD&P should develop an administrative process that can be used by all staff responsible for monitoring contracts. This process should include but not be limited to the following:

- Contract manager assignment,
- Types of files to be maintained and person(s) responsible for each file,
- Checklists for contractual requirements,
- Checklist of documents that should be included in a reimbursement request,
- Reporting requirement – formats, distribution lists, etc.,
- On-site monitoring schedule and framework.

Additionally, each file should be well documented in such a manner that another person who assumes responsibility for the file will be able to follow it and spend a minimal amount of time determining what needs to be accomplished.

Lack of Supervisory Review

IAD found a weak control environment with inadequate supervisory oversight, inadequate emphasis on financial matters, and incomplete policies and procedures. Staff told IAD that no one regularly reviewed their work. Supervisors typically stated that Development Officers were professionals and that they had their own assignments and projects. In some cases, development officers indicated that their supervisors were unable to give them direction on how to administer a specific program because the supervisor had no experience with the program. Supervisory review of transactions can help ensure that appropriate activities occur and objectives are achieved.

Recommendation:

We urge the creation of a strong control environment – which sets the tone for the department. Appropriate supervision and oversight is the foundation for all other aspects of internal control, providing discipline and structure. It includes such factors as integrity and ethical values, commitment to competence, assignment of authority, and organization structure. Creating a successful control environment requires clearly communicating expectations to staff, assigning responsibilities and authority to make decisions to the appropriate level, and routinely monitoring performance.

Supervisors should monitor, review, and approve the work of their unit; provide necessary guidance and training; and clearly communicate duties and responsibilities. Given the lack of separation of duties, the need for supervisory review and oversight is heightened.

Lack of standardized reports and processes.

IAD found a lack of defined processes and standardized reporting in such areas as:

- Project review,

- Project analysis,
- Project recommendations,
- Reports to the City Manager & City Council,
- Monitoring.

IAD found a lack of standardized forms for reviewing and analyzing a project's viability. There were no standardized procedures for the Development Officer to use in order to document their recommendation on a project. The lack of documentation in these areas makes it difficult to supervise and review staff performance.

Additionally, IAD found that CD&P had no standardized format for submission to the City Manager or City Council. The lack of standardization makes it difficult to compare and determine which projects are more beneficial to the department's mission and the City's goals.

Specifically, IAD found one example involving two theater project proposals where one project had a detailed financial analysis by the Development Officer and the other had very little analysis conducted by the Development Officer. Had the project that lacked critical review been subjected to the same level of review as the second theater the project would never have been approved. These types of processes should be standardized.

Recommendations:

The department should design standardized forms for reviewing and evaluating program and project viability. The development officer and supervisor should review and evaluate the project. The form should have signature lines for the development officer and their supervisor, which would indicate they have evaluated the project and either, approve or disapprove of the project.

Lack of training for development officers

CD&P certifies their development officers through the National Development Council (NDC). Analysts in the Human Services Section receive training from Performance Institute and Northern Kentucky University. Although, NDC certification appears to be helpful to the development officers there is a lack of training in the following areas:

- Voucher review and approval,
- Cincinnati Financial Systems,
- Fraud Awareness,
- A-133 Audit Review,

- IRS Form 990s & Annual Financial Report of Charitable Organization (State of Ohio, Attorney General's Office).

Recommendation:

Given the lack of training in the areas of financial review, the potential for fraud, irregularities, and misrepresentations is present. Training should be focused on the above areas. CD&P should endeavor to schedule each staff member in training courses that will educate them to the above areas. In particular, CD&P staff should have a general understanding of the potential risk of fraud in their department, what to look for, and what to do if they have concerns about fraud or misappropriations.

Voucher Review and Approval

IAD found that vouchers are being reviewed in the Human Services Section (HSS). HSS staff reviews the vouchers and determines whether appropriate supporting documentation is attached. Although there are no written policies on voucher review, some HSS staff try to verify the authenticity of the supporting documentation by calling the vendor.

Recommendation:

CD&P should have detailed policies and procedures on how to review and approve vouchers. These policies and procedures should include, but not be limited to the following:

- Procedures on what are allowable or sufficient supporting documentation.
- Procedures on how to verify supporting documentation.
- Procedures on when to verify supporting documentation.
- Procedures on what to do if the subrecipient has not provided supporting documentation.
- Procedures for insufficient or questionable supporting documentation.
- Procedures on the approval process (required signatures for approval)
- Procedures on the voucher routing process and time limitations.